

Message Text

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SUBJECT: AUSTRALIAN ELECTION: OPENING EXCHANGES ON ECONOMIC ISSUES

1. ISSUES OF DOMESTIC ECONOMIC MANAGEMENT AND OUTLOOK
WILL BE PROMINENT IN UPCOMING AUSTRALIAN GENERAL ELECTIONS,
NOTWITHSTANDING ALP EFFORT LED BY WHITLAM TO PRESERVE
PUBLIC INDIGNATION OVER CONSTITUTIONAL ISSUES AND
GOVERNOR-GENERAL'S ROLE IN DISMISSING ALP GOVERNMENT.
DURING PAST WEEK, ANTICIPATING FORMAL OPENING OF CAMPAIGN
BY SEVERAL DAYS, PRIME MINISTER FRASER AND ALP SPOKESMAN
LED BY FORMER TREASURER HAYDEN HAVE EXCHANGED OPENING SHOTS
IN ECONOMIC DEBATE WHICH FRASER GOVERNMENT HOPES WILL COME
TO DOMINATE CAMPAIGN AS POLITICAL EXCITEMENT OF DOUBLE DIS-
SOLUTION RECEDES IN PUBLIC CONSCIOUSNESS.

2. DURING THIS PRELIMINARY PHASE FRASER AND LIBERAL/CP
SPOKESMEN HAVE STATED ECONOMY IN WORSE CONDITION THAN
PREVIOUSLY REVEALED AND PREDICTED DIRE ECONOMIC FUTURE
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UNLESS WHITLAM ECONOMIC POLICIES ABANDONED. MAIN

EMPHASIS IN FRASER APPROACH IS ON LARGE FY 1976 GOA DEFICIT NOW BUILDING AND PREDICTED EFFECT ON RECOVERY OF PRIVATE SECTOR, INCLUDING INCREASED INFLATION AND UNEMPLOYMENT. FRASER APPROACH SUGGESTS VIGOROUS EFFORT TO REDUCE PUBLIC SPENDING IN EVENT OF LIBERAL/CP VICTORY DECEMBER 13. LIBERAL/CP COMMITMENT TO INTRODUCE TAX INDEXATION PROPOSALS OF MATHEWS COMMITTEE "AS SOON AS POSSIBLE" PROMISES TO REINFORCE ITS MOTIVATION TO REDUCE PUBLIC EXPENDITURE.

3. HAYDEN REJOINDER STRESSES THAT ALL ECONOMIC DATA NOW EMPHASIZED BY FRASER WERE A MATTER OF PUBLIC RECORD UNDER WHITLAM REGIME, INCLUDING PREDICTION THAT DEFICIT WOULD GROW IF WAGE POLICIES BEGAN TO SUCCEED IN SLOWING WAGE/PRICE PUSH, AND INCREASED CPI DECEMBER QUARTER DUE TO IMPACT OF NEW TAXES, AND DRAMATIC ONE-TIME EFFECT OF REMOVAL OF MEDICAL COSTS FROM INDEX IN LOWERING SEPTEMBER CPI FIGURE. SIMILARLY, DECEMBER-JANUARY UNEMPLOYMENT INCREASE LONG PREDICTED DUE TO ADDITION OF SCHOOL LEAVERS TO LABOR FORCE IN DECEMBER.

4. SEASONALLY ADJUSTED AVERAGE WEEKLY EARNINGS PER MALE UNIT ROSE 5.5 PCT. IN THE DECEMBER 1974 QUARTER (28.0 PCT. OVER THE PREVIOUS YEAR); 3.3 PCT. IN THE MARCH 1975 QUARTER (27.3 PCT. OVER PREVIOUS YEAR); 1.2 PCT. IN JUNE QUARTER (21.3 PCT. OVER PREVIOUS YEAR); AND 2.9 PCT. IN SEPTEMBER QUARTER (13.5 PCT. OVER PREVIOUS YEAR). THE SEPTEMBER QUARTER INCREASE WAS HIGHER THAN IN THE JUNE QUARTER PRIMARILY BECAUSE THE PAYMENT OF THE MARCH QUARTER WAGE INDEXATION INCREASE, AWARDED FROM MID-MAY FELL MAINLY IN THE SEPTEMBER QUARTER. THE FULL BENCH OF THE CONCILIATION AND ARBITRATION COMMISSION ANNOUNCED ON NOVEMBER 3 THAT NO INCREASE IN AWARD WAGE RATES WOULD BE GRANTED AS A RESULT OF THE 0.8 PCT. RISE IN CPI IN SEPTEMBER QUARTER. IN CONTRAST, BUDGET PLANNERS ASSUMED THAT AVERAGE WEEKLY EARNINGS PER EMPLOYED MALE WOULD INCREASE BY 22 PCT., ALTHOUGH IT WAS THEN RECOGNIZED THERE WERE SOME TENTATIVE SIGNS THAT AVERAGE EARNINGS ASSUMPTION MIGHT BE HIGH.

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5. CPI DATA FOR SEPTEMBER QUARTER SHOWED WEIGHTED AVERAGE INCREASE OF 2.9 PCT. WITH HEALTH SERVICE COSTS EXCLUDED AND 0.8 PCT. OF HEALTH COSTS INCLUDED. SHARP DIFFERENCE REFLECTS INTRODUCTION JULY 1 OF GOA MEDIBANK SCHEME. 2.9 PCT. RATE, WHICH REPRESENTS DROP FROM COMPARABLE MEDICAL SERVICES EXCLUDED FIGURE OF 3.7 PCT. IN JUNE QUARTER IS MORE VALID INDICATION OF STATE OF AUSTRALIAN

INFLATION, BUT LOWER 0.8 PCT. FIGURE WAS RATE ACCEPTED BY CONCILIATION AND ARBITRATION COMMISSION IN REFUSING GRANT INDEXATION AWARD AS IT WAS BELOW 1 PCT. TRIGGER LEVEL. ON BASIS 0.8 PCT. FIGURE, CPI IS 12.1 PCT. ABOVE PREVIOUS SEPTEMBER FIGURE WHILE IT 13.8 PCT. OVER IF MEDICAL SERVICES EXCLUDED FROM BOTH SEPTEMBER QUARTER INDEXES. BY CONTRAST, JUNE QUARTER ALL GROUP CPI INDEX WAS 16.9 PCT. OVER JUNE QUARTER 1974.

6. WHILE THERE WAS SOME INDICATION OF A STRENGTHENING RETAIL SALES TREND EARLIER IN 1975 THE SEPTEMBER QUARTER SHOWED THAT THIS TREND HAS NOT BEEN SUSTAINED. IN SEPTEMBER QUARTER VALUE OF RETAIL SALES ROSE 2.4 PCT COMPARED WITH RISES OF 5.7 PCT. IN JUNE QUARTER AND 4.0 PCT. IN MARCH QUARTER. ON BASIS OF PROVISIONAL FIGURES, THERE WAS LITTLE CHANGE IN THE VALUE OF RETAIL SALES AT CONSTANT PRICES BETWEEN JUNE AND SEPTEMBER QUARTERS.

7. EMBASSY COMMENT: IN GENERAL, FORMER TREASURER HAYDEN HAD THE BETTER OF INITIAL CAMPAIGN EXCHANGE. IT IS CORRECT THAT ALL HARD FACTS CITED BY PRIME MINISTER HAD BEEN ADVANCED BY WHITLAM GOVERNMENT PRIOR TO DOUBLE DISSOLUTION. THEY DO NOT PROVIDE ANY BASIS FOR CONTENTION THAT ECONOMY IS WORSE THAN PREVIOUSLY REPORTED, ALTHOUGH THERE IS OBVIOUSLY ROOM FOR DIFFERING JUDGMENTS AS TO PRESENT STATE AND LONGER-RUN PROSPECT OF ECONOMY. RECENT EVIDENCE INDICATES THAT WHILE RATE OF PUBLIC EXPENDITURE INCREASE IS SLOWING, AS SCHEDULED, AN EVEN GREATER DROP IN THE RATE OF WAGE AND PRICE INCREASES IS IN FACT AFFECTING THE REVENUE SIDE AND RESPONSIBLE FOR A LARGE PART OF THE INCREASE IN THE INDICATED DEFICIT.

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8. IF THE LINE TAKEN BY THE LIBERAL/CP GOVERNMENT CONTINUES TO PLACE URGENT PRIORITY ON SHARP REDUCTION IN THE DEFICIT FOLLOWING THE ELECTION, IT WILL PROBABLY RAISE DIFFICULT QUESTIONS CONCERNING THE EFFECT OF SUCH REDUCTIONS ON THE PRESENT LEVEL OF CONSUMER SPENDING AND INDUSTRIAL ACTIVITY. GIVEN THE CONTINUING AND SLOWLY INCREASING UNEMPLOYMENT AND EVIDENCE OF A SLIGHT WEAKENING IN CONSUMER DEMAND, THE STRESS ON THE DEFICIT AS A SHORT RUN THREAT TO THE PRIVATE SECTOR IS OPEN TO QUESTION. THE SIMULTANEOUS LIBERAL/CP COMMITMENT TO IMPLEMENT TAX INDEXATION MEASURES WHICH ARE ESTIMATED TO IMPLY A \$2,000,000,000 FIRST YEAR REVENUE REDUCTION, FURTHER INCREASES THE POTENTIAL IMPORTANCE OF FRASER'S STRESS ON DEFICIT REDUCTION. SUCH A REDUCTION WHILE

SIMULTANEOUSLY INTRODUCING INDEXATION WOULD REQUIRE
EITHER COUNTERPRODUCTIVE INCREASES IN TAX LEVELS OR
DRACONIAN REDUCTIONS IN THE RATE OF PUBLIC EXPENDITURE.

9. THE LIBERAL/CP GOVERNMENT'S APPARENT DECISION TO
TRY AND FIGHT THE CAMPAIGN ON ECONOMIC GROUNDS IS
OBVIOUSLY WISE. BUT IT WILL HAVE DIFFICULTY PRESENTING
AN ATTRACTIVE ECONOMIC PROGRAM IF IT ADOPTS AN ATTACK
ON THE MOST RECENT WHITLAM ECONOMIC POLICIES AS ITS
CENTRAL CAMPAIGN THEME. THE QUALITY OF THE WHITLAM
GOVERNMENT'S ECONOMIC PROGRAM IMPROVED MARKEDLY WITH
THE HAYDEN BUDGET PRESENTED IN SEPTEMBER. UNDER EITHER
PARTY, THE PROCESS OF ECONOMIC RECOVERY WILL BE LONG
TERM. THERE APPEARS LITTLE ROOM FOR DRAMATIC DEVIATIONS
FROM THE GENERAL POLICY THRUST EMBODIED IN THE 1976
HAYDEN BUDGET, AND UNDER THESE CIRCUMSTANCES THE
LIBERAL/CP COALITION SEEMS LIKELY TO FIND THAT THE
CONTRIBUTIONS IT CAN PROMISE LIE MORE IN THE AREA OF BETTER
LONGER-TERM MANAGEMENT OF SUCH POLICY, ASSURANCES THAT
IT WOULD AVOID THE ETHICAL IRREGULARITIES AND THE
ERRATIC POLICY COURSE FOLLOWED BY THE ALP GOVERNMENT IN THE
PAST TWO YEARS, AND THE UNDOUBTEDLY GREATER CONFIDENCE
WHICH THE IMPORTANT PRIVATE SECTOR HAS IN THE LIBERAL/CP
ADMINISTRATION.
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